Winter 2015/2016 - Whitefish Market Bulletin

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Alaska's whitefish species are caught year-round; however, much of the harvest occurs during the fall and winter months. This bulletin summarizes market conditions for high-volume whitefish species, including pollock, Pacific cod, high-volume flatfish, rockfish, and Atka mackerel. These whitefish species accounted for 52 percent of the state's total first wholesale value in 2014, and 83 percent of Alaska's total seafood harvest volume.

Pollock

Pollock accounted for 53 percent of Alaska's total harvest volume in 2014 and 24 percent of the total ex-vessel value. Alaskan pollock are primarily harvested by large pelagic trawl vessels in the Bering Sea. The total allowable catch (TAC) is allocated to several groups. Community Development Quota (CDQ) groups are allocated 10 percent of the Eastern Bering Sea (EBS) quota each year. Catcher-vessels harvest 60 percent of the remaining BSAI TAC and deliver fish to shoreside processing plants and floating processors called motherships. Catcher-processors are allotted 40 percent of the BSAI TAC.

Global Pollock Supply, Millions Metric Tons, 2010-2016

Key Producers	2010	2011	2012	2013	2014	2015P	2016E
Alaska – BSAI TAC	0.83	1.27	1.22	1.27	1.29	1.33	1.36
Alaska – GOA TAC	0.08	0.10	0.12	0.12	0.17	0.20	0.26
Alaska Total TAC	**0.92**	**1.37**	**1.34**	**1.39**	**1.46**	**1.53**	**1.62**
Russian Harvest	**1.58**	**1.58**	**1.63**	**1.56**	**1.52**	**1.60**	**1.73**
Japan Harvest	**0.25**	**0.24**	**0.23**	**0.23**	**0.23**	**0.25**	**0.25**
Total	**2.75**	**3.19**	**3.20**	**3.17**	**3.21**	**3.38**	**3.60**
Pct. Change	**-**	**15.8%**	**0.4%**	**-0.7%**	**1.0%**	**5.3%**	**6.5%**

Note: Figures from 2015 are preliminary while 2016 figures are projected estimates.
Sources: NMFS, FAO, and Groundfish Forum.

Global pollock supply is expected to increase 6.5 percent in 2016, marking the largest supply increase since 2011. Despite the former official species name (Alaska pollock), Russia is currently the largest pollock

producer with 1.7 million metric tons. Alaska's pollock supply has steadily increased since 2010 and is expected to exceed 1.6 million metric tons in 2016. Japan is a significant export market for key pollock products, such as surimi and roe, but harvests relatively little pollock compared to Russia and Alaska.

Value of the Alaska Pollock Resource, 2010-2014

First Wholesale Value ($Millions)	2010	2011	2012	2013	2014	2015P
All Products	**$1,106**	**$1,424**	**$1,469**	**$1,336**	**$1,384**	*N/A*
Fillets	$422	$570	$521	$564	$551	*N/A*
Pct. of Total FW Value	38%	40%	35%	42%	40%	*N/A*
Surimi	$357	$418	$524	$378	$421	*N/A*
Pct. of Total FW Value	32%	29%	36%	28%	30%	*N/A*
Roe	$98	$153	$169	$116	$151	*N/A*
Pct. of Total FW Value	9%	11%	12%	9%	11%	*N/A*
All Other Products	$228	$283	$255	$279	$261	*N/A*
Pct. of Total FW Value	21%	20%	17%	21%	19%	*N/A*
First Wholesale Value/MT	**2010**	**2011**	**2012**	**2013**	**2014**	**2015P**
Fillets	$3,789	$3,416	$3,414	$3,193	$2,996	*N/A*
Surimi	$3,448	$2,823	$3,134	$2,217	$2,290	*N/A*
Roe	$5,957	$7,926	$9,317	$7,173	$6,242	*N/A*
Head/Gut	$1,595	$1,830	$1,479	$1,607	$1,402	*N/A*
Fish Meal	$1,576	$1,559	$1,499	$1,726	$1,709	*N/A*
Exports from Alaska Fisheries	**2010**	**2011**	**2012**	**2013**	**2014**	**2015P**
Export Volume (MT)	204,282	302,955	314,544	360,588	395,989	377,694
Export Value ($Millions)	$667	$923	$938	$969	$1,083	$1,038
Export Value (Value/MT)	$3,266	$3,046	$2,983	$2,687	$2,735	$2,749

Note: Figures from 2015 are preliminary. Export figures do not include fish meal, fish oil, or other specialty products.
Sources: NMFS SAFE and ASMI Alaska Seafood Export Database.

Pollock is the most valuable commercial species harvested in Alaska, in terms of first wholesale value (33 percent). Virtually all of Alaska's pollock is converted into edible frozen products or inedible specialty products (such as fish meal/oil). Fillets and surimi accounted for 70 percent of the first wholesale value in 2014. Roe is the third largest product form by value, but is the most valuable product per metric ton produced. Prior to 2010, roe accounted for one-fifth to one-third of total value but declining prices has made it a relatively less valuable product form in recent years. Fish meal is the fourth-most-valuable product at $98 million and frozen head/gut products are the fifth-most-valuable product at $94 million.

Prices for most Alaska pollock products have declined since 2010. This is due to a number of factors, but market supply, market access changes (MSC certification for Russian pollock), and a stronger U.S. dollar had the biggest impact. Larger harvests in Alaska have led to more supply. In general, markets for most edible products have be unable to absorb increased production at higher prices. Increasing competition from twice frozen Russian pollock fillets in Europe have also had a negative impact on prices for Alaskan pollock fillets. However, demand for fish meal and fish oil derived from Alaska's pollock has increased faster than supply, leading to higher prices for these products since 2010. Despite lower prices for most pollock products, the overall first wholesale value is up 25 percent since 2010 due to larger harvests.

CURRENT POLLOCK MARKET SUMMARY

Alaska pollock producers have encountered significant headwinds in recent years. Late in 2013, the largest Russian pollock fishery received sustainability certification from the Marine Stewardship Council (MSC), opening up more European markets for twice frozen Russian pollock fillets. Further, the U.S. dollar has strengthened significantly versus the euro, yen, and ruble making Alaska products relatively more expensive from the perspective of foreign buyers.

Despite unfavorable exchange rates, Alaska producers are cautiously optimistic about 2016. Species nomenclature changes, improving supply/demand fundamentals for surimi, uncertainty about the availability of twice frozen Russian pollock fillets, a growing domestic market in Russia, and marketing gains for once frozen Alaskan pollock fillets are all positives for Alaska.

On January 21, 2015, the U.S. Food and Drug Administration reacted to legislative actions spearheaded by Sen. Murkowski (AK), Rep. Young (AK), and Rep. (WA) announcing that only pollock caught in Alaska could be labeled as "Alaska pollock." Prior to the nomenclature change, Russian pollock could be labeled as "Alaska pollock" since the Alaska-moniker is part of the species official name. Industry leaders believe the change will clear up confusion amongst consumers, who understandably assume that "Alaska pollock" must come from Alaska.

The precarious financial position of secondary processors in China could have a profound impact on the pollock market in 2016. Relatively little Alaskan pollock is secondarily processed in China, but the country is a major producer of twice frozen Russian pollock fillets. Intrafish reports credit availability is extremely low in China and it is widely expected that some companies will not reopen after the Chinese New Year (February 19). As a result, demand for Alaskan fillets has been steady but the weak ruble continues to pressure raw material prices. One effort to watch will be a spring marketing campaign in Germany, aimed at showcasing the superiority of once frozen Alaskan pollock over twice frozen Russian fillets.

Unfavorable exchange rates, a difficult roe market, and pricing pressure for fillets in Europe remain significant challenges for Alaska producers. However - at this point - it appears likely that the value of Alaska's pollock resource may increase in 2016 due to larger harvests and improving (or at least stable) prices for surimi and fillets. Whether this will result in higher profits for Alaska producers is less clear. Fuel costs continue to fall, which is certainly a positive development, but production costs have also risen sharply in recent years due to the Affordable Care Act and environmental-related expenditures.

Pacific Cod

Pacific cod accounted for 12 percent of Alaska's total harvest volume in 2014 and 11 percent of the total ex-vessel value. Cod are caught using several gear types in Alaska, including longline, trawl, pot, and jig gear. Vessels range in size from over 300 feet to less than 50 feet. Some vessels are designed to primarily to fish for cod, but the species is also an important supplement for fishermen that target salmon, halibut, sablefish, flatfish, and crab. Nearly 80 percent of Alaska's cod is caught in the Bering Sea. Similar to pollock, 10.7 percent of the BSAI TAC is allocated to six regional CDQ groups.

Global Cod Supply, Thousands of Metric Tons, 2010-2016

Key Producers	2010	2011	2012	2013	2014	2015P	2016E
Alaska – BSAI TAC	169	228	261	260	254	249	252
Alaska – GOA TAC	60	65	66	61	65	75	72
Alaska Total TAC	**228**	**293**	**327**	**321**	**319**	**325**	**323**
Russia	**354**	**390**	**418**	**515**	**517**	**470**	**470**
Norway	**283**	**340**	**358**	**472**	**473**	**423**	**423**
Iceland	**179**	**182**	**205**	**236**	**238**	**245**	**250**
Other Europe	**173**	**171**	**179**	**175**	**179**	**168**	**168**
Japan	**55**	**47**	**51**	**61**	**58**	**60**	**60**
Other Countries	**74**	**65**	**51**	**42**	**60**	**76**	**76**
Total	**1,346**	**1,489**	**1,588**	**1,821**	**1,844**	**1,767**	**1,770**
Pct. Change	**-**	**10.6%**	**6.7%**	**14.7%**	**1.2%**	**-4.2%**	**0.2%**

Note: Unless noted, figures represent actual, estimated, or projected harvest figures.
Source: NMFS, FAO, and Groundfish Forum.

Global cod harvests peaked at 4 million metric tons in the late 1960s and steadily declined for much of the next five decades. Cod harvests bottomed out at 1.1 million metric tons in 2008 and have rebounded approximately 60 percent since then. However, cod production declined in 2015 due to lower Atlantic cod production. It is estimated that global supply will be flat in 2016 at 1.77 million metric tons.

Value of the Alaska Pacific Cod Resource, 2010-2015

First Wholesale Value ($Millions)	2010	2011	2012	2013	2014	2015P
All Products	**$351**	**$497**	**$494**	**$398**	**$472**	*N/A*
Head/Gut	$232	$349	$354	$241	$317	*N/A*
Pct. of Total FW Value	66%	70%	72%	61%	67%	*N/A*
Fillets	$87	$106	$103	$122	$117	*N/A*
Pct. of Total FW Value	25%	21%	21%	31%	25%	*N/A*
All Other Products	$32	$42	$37	$35	$37	*N/A*
Pct. of Total FW Value	9%	8%	8%	9%	8%	*N/A*
First Wholesale Value/MT	**2010**	**2011**	**2012**	**2013**	**2014**	**2015P**
Head/Gut	$2,893	$3,287	$2,960	$2,308	$2,771	*N/A*
Fillets	$5,865	$6,726	$6,509	$6,605	$6,415	*N/A*
Exports from Alaska Fisheries	**2010**	**2011**	**2012**	**2013**	**2014**	**2015P**
Export Volume (MT)	81,887	103,300	106,311	96,097	103,812	109,654
Export Value ($Millions)	$254	$350	$349	$291	$302	$322
Export Value (Value/MT)	$3,106	$3,386	$3,283	$3,023	$2,914	$2,938

Note: Figures from 2015 are preliminary. Export figures do not include roe, fish meal, fish oil, or other specialty products.
Sources: NMFS SAFE and ASMI Alaska Seafood Database.

The first wholesale value of Alaska's Pacific cod resource increased 34 percent between 2010 and 2014. Increasing resource value has been driven by larger cod harvests, which increased by nearly 100,000 metric tons since 2010. However, Alaska's cod production has plateaued since 2012. Resource value has been consistent in recent years at $470-$500 million, outside of 2013 when global cod prices fell due to larger Atlantic cod harvests.

Headed and gutted products account for two-thirds of the Alaska's cod resource value. Fillets accounted for a quarter of the value in 2014 while other products accounted for 8 percent. Roughly two-thirds of Alaska's cod production is exported leaving about a third for domestic sales (however, some head/gut exports are sent back into the U.S. market as frozen fillets). China is Alaska's largest cod trading partner, accounting for 53 percent of Alaska's cod exports (by value) in 2014. Europe is the next largest trading partner, directly importing $70 million of Alaska cod in 2014. Japan is also a major trading partner, with sales of $48 million. Although China is Alaska's largest cod trading partner, most product exported there is head/gut product which is filleted and re-exported to markets in Europe, North America, and Brazil. Salted cod is a popular item in Europe and Brazil, the latter also imports Alaska cod from European suppliers. Alaska producers have made progress in setting up direct relationships with Brazilian importers in recent years, but face substantial regulatory hurdles. In addition, Alaska produces very little finished salted cod product and many Brazilian importers have a long history of procuring finished product from Europe.

CURRENT COD MARKET SUMMARY

Cod is a staple for many European consumers. Increasing supply between 2008 and 2014 led to lower prices and a resurgence in consumer demand. European cod prices have increased significantly in the past couple years due to declining Atlantic cod harvests and a weaker Norwegian kroner. This pattern of increasing demand is typical in the seafood business cycle when a species with mass appeal becomes increasingly available at lower prices. Demand often lags changes in harvest volume, moving on its own inertia until higher retail prices turn the tide. Based on comments from European suppliers, demand is currently stronger than supply and there is little inventory of Atlantic cod products. This is great news for Alaska cod producers; unfortunately, the strong U.S. dollar has cancelled out most of the gains in European cod prices over the last eighteen months.

Demand for cod in the U.S. also appears to be increasing, though at a slower pace than Europe. The value of imported cod products increased 8.9 percent through November 2015 compared to the prior year and 29.4 percent compared to 2013. Cod is currently a terrific value for consumers, compared to other proteins. Since 2010, prices for beef have increased 57 percent while pork and broilers (chicken) have both increased 36 percent. Meanwhile, (imported) cod fillets increased just 22 percent during the same period. However, beef prices are expected to decline in 2016 as larger supplies make their way to market.

Some secondary processors in China are having trouble securing adequate financing and labor. Due to the high demand for cod in Europe, this is unlikely to impact Alaska cod significantly. However, the situation bears watching.

Amendment 80 Species: Flatfish, Rockfish, and Atka Mackerel

Flatfish, rockfish, and Atka mackerel accounted for 16 percent of Alaska's harvest volume in 2014 and 8 percent of the total ex-vessel value. These species are primarily targeted by the "Amendment 80" fleet, a group of 15 to 20 catcher-processor trawl vessels which mostly operate in the Bering Sea. Smaller amounts of these species are also caught by catcher-vessels using trawl, longline, and jig gear in other parts of the state.

Alaska Flatfish, Rockfish, and Atka Mackerel Supply, Thousands of Metric Tons, 2010-2016

TAC by Species	2010	2011	2012	2013	2014	2015P	2016E
Soles	389.1	342.7	363.1	353.1	330.6	251.7	222.1
Flounders	118.0	86.6	146.0	138.3	135.4	131.8	122.3
Plaice/Other	93.6	45.4	69.4	65.7	74.3	70.8	61.1
Turbots	6.1	5.1	8.7	2.1	2.1	2.6	3.1
Flatfish Total	**606.8**	**479.7**	**587.1**	**559.2**	**542.4**	**457.0**	**408.6**
Pacific Ocean Perch	36.4	41.7	41.6	51.5	52.4	53.0	56.1
Other Rockfish	24.0	20.9	22.6	19.8	21.6	21.2	21.0
Rockfish	**60.4**	**62.6**	**64.2**	**71.3**	**74.1**	**74.2**	**77.1**
Atka Mackerel	**76.0**	**55.1**	**52.8**	**27.9**	**34.3**	**56.5**	**57.0**
Total	**743.2**	**597.4**	**704.1**	**658.4**	**650.8**	**587.7**	**542.8**
Harvest by Species	**2010**	**2011**	**2012**	**2013**	**2014**	**2015P**	**2016E**
Flatfish	291.0	327.0	320.9	331.1	323.6	245.8	*N/A*
Rockfish	49.0	51.3	55.5	59.9	64.9	67.4	*N/A*
Atka Mackerel	71.1	53.4	49.0	24.5	32.0	54.5	*N/A*
Total	**411.1**	**431.7**	**425.4**	**415.5**	**420.5**	**367.7**	*N/A*

Source: NMFS, compiled by McDowell Group.

Flatfish harvest volume fell 24 percent in 2015, and TACs are down 11 percent in 2016. In the parlance of Alaska fisheries, the term "flatfish" applies collectively to flathead/rex/rock/yellowfin sole, Arrowtooth/Kamchatka flounder, Alaska plaice, turbots, and other small flatfish species, but does not include Pacific halibut. Flatfish TACs have declined by 33 percent since 2010 even though the resource is generally abundant in the Bering Sea and Gulf of Alaska. Less flatfish has been available for harvest primarily because of the "2 Million Metric Ton" rule, which caps the harvest of BSAI groundfish (at 2 million metric tons). Pollock and cod TACs have increase substantially since 2010, leaving less room under the cap for lower value flatfish species. Flatfish harvests are also limited through by-catch regulations. If vessels catch too many halibut or other prohibited species the fishery is shut down. Amendment 80 vessels fish cooperatively by sharing catch information to avoid areas with higher densities of prohibited species. Finally, harvests of less valuable flatfish species, such as Arrowtooth flounder, often come up well short of the annual TAC because harvesting such a large volume would be unprofitable at current prices.

Pacific Ocean perch (POP) accounts for about three-quarters of Alaska's rockfish production value and an even higher percentage by volume. As such, the small rockfish species dominates the rockfish category. Total rockfish TACs and harvests have steadily increased in recent years driven by larger POP catches. POP TACs are up 5.8 percent in 2016, pushing the entire rockfish category up 4.0 percent.

Atka mackerel harvests declined by 66 percent between 2010 and 2013, but TACs have doubled since 2013. Much of the decline in TACs was related to protection measures for Stellar sea lions, which are listed as an endangered species in western Alaska, rather than a decrease in species biomass. Atka mackerel are an important prey species for Stellar sea lions. Recent mitigation measures have allowed for higher TACs without impacting endangered Stellar sea lion populations.

Compared to crab, pollock, and cod, Amendment 80 species have less specific sources of competing supply. Alaska's sole and flounder fit a niche for high-volume, low-value whitefish species. Buyers expect to pay less for small sole fillets than larger-sized hake, pollock, or cod fillets. Negative price pressure on higher-valued whitefish products, whether due to increasing supply or other factors, puts downward price pressure on sole/flounder to keep buyers from switching to other whitefish products. Pollock and hake supply is expected to increase in 2016, which could further impact flatfish pricing.

Japan is the primary market for Alaska rockfish and Atka mackerel. Although Japan has some domestic production of these species and other countries also export similar product to Japan (mostly European redfish or Okhotsk Atka mackerel from Russia), market supply is largely a function of Alaska production.

Value of the Alaska Flatfish, Rockfish, and Atka Mackerel Resource, 2010-2014

First Wholesale Value ($Millions)	2010	2011	2012	2013	2014
Total	**$316**	**$428**	**$444**	**$362**	**$354**
Flatfish	$182	$259	$285	$255	$209
Rockfish	$59	$95	$85	$68	$81
Atka Mackerel	$74	$75	$75	$39	$63
First Wholesale Value/MT	**2010**	**2011**	**2012**	**2013**	**2014**
Head/Gut Flatfish	$1,276	$1,567	$1,699	$1,207	$1,198
Head/Gut Rockfish	$2,501	$3,763	$3,204	$2,322	$2,593
Head/Gut Atka Mackerel	$1,921	$2,539	$2,734	$2,922	$3,324

Sources: NMFS SAFE.

Together these species produced more than $350 million of first wholesale value in 2014. Of the three species groups, flatfish are the most valuable at $209 million. Rockfish products were worth $81 million and Atka mackerel production was valued at $63 million in 2014. The value of Amendment 80 species declined 20 percent between 2012 and 2014, primarily due to falling flatfish prices.

Foreign trade data suggests Alaska flatfish values fell further in 2015. Average export prices of frozen head/gut yellowfin sole declined 4.4 percent and total frozen sole exports were down $14.3 million (-9.8 percent) in 2015. Atka mackerel exports fared better; increasing $30.9 million (58.2 percent) due to a 54.3 percent increase in export volume. POP export value fell slightly, but prices increased slightly.

CURRENT MARKET SUMMARY

Based on export data, production value for Amendment 80 species was likely flat in 2015. Going into 2016, the Amendment 80 sector continues to face challenges from unfavorable currency valuations and rising secondary processing costs – particularly for flatfish products. Both of these factors put downward pressure on raw material pricing for Alaska producers.

Supply/demand conditions are generally favorable for rockfish and very favorable for Atka mackerel in Japan, the primary market for both species. Despite a weakening yen, demand for these species has been resilient. However, Japanese seafood consumers are among the most adaptable in the world and higher prices (in yen terms) often leads to a substitution effect and lower prices. The timing and extent of this reaction could impact raw material pricing for Alaska rockfish and Atka mackerel in 2016.